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PROGRAMME PLANNING

Support cost successor arrangements

Report by the Administrator

I. INTRODUCTION

1. Governing Council decision 91/32 of 25 June 1991 and decision 90/26 of 22 June 1990 constitute the legislative framework for a new system of reimbursing United Nations specialized agencies for the provision of support services in the delivery of programmes and projects financed by the United Nations Development Programme (UNDP). In decision 91/32, the Administrator was requested to provide an annual progress report on the implementation of the new system. Since the new arrangements went into effect only as of 1 January 1992, this first progress report will cover the preparatory actions taken since June 1991 to begin implementation of the system as well as other issues on which further guidance by the Council is being requested.

II. FORMULATION OF GUIDELINES FOR IMPLEMENTATION

2. Following the adoption of decision 91/32, UNDP initiated a series of close consultations with the specialized agencies concerned in order to develop a set of operational guidelines for the implementation of the new system. These consultations were extensive and covered a period of over six months. The guidelines were issued in January 1992 and are currently in effect. Given the nature of the new arrangements, it was considered necessary to field test the guidelines for an initial period of one year. They will be subsequently updated and amended as necessary, based on experience with their application, and incorporated into the official policies and procedures of UNDP.

3. The Administrator is pleased to report that the joint development of the guidelines was carried out by the specialized agencies and UNDP in a productive and cooperative spirit and that the organizations remain fully committed to implementing the new arrangements in a manner designed to achieve the objectives of the Governing Council. To this end, UNDP and the agencies are currently planning a series of workshops for their field personnel as well as government officials to familiarize them with the new arrangements and to ensure that the full range of the facilities available in the new system is thoroughly understood and utilized. Given the inherent complexity of the new arrangements, an initial investment in such training activities is considered by all concerned to be particularly essential for the effective implementation of the system.

III. POLICY FRAMEWORK FOR EXECUTION AND IMPLEMENTATION

4. In adopting decision 91/32, the Governing Council brought to a culmination a long legislative process through which it has sought to introduce significant improvements in United Nations operational activities. In addition to that decision, the Council also adopted decisions 90/21 of 22 June 1990 and 91/27 of 21 June 1991 on national execution and 90/34 on the fifth programming cycle. Thus, the new agency support costs arrangements form part of the larger legislative and policy thrust, which includes new initiatives relating to national execution and the programme approach and a renewed emphasis on human development and capacity-building in development activities.

5. UNDP and the specialized agencies recognize that the various components of this package of legislation should be viewed as mutually supportive and synergistic. In formulating guidelines for the support cost arrangements, therefore, it was considered essential that an operational framework for execution and implementation, based on this legislative guidance, should first be established. After extensive consultations, the agencies and UNDP have agreed on such a framework, the details of which are included as a separate chapter in the guidelines on the new arrangements. While the present report will not attempt to summarize the features of this framework, the essential elements include the following:

(a) A rigorous definition of terminology, including a distinction between ownership, execution and implementation of programmes and projects;

(b) Clarification of the roles, responsibilities and functions of the various parties involved, including that of the government, the United Nations specialized agencies and UNDP at various stages of the programme and project cycle;

(c) Increased availability of choices to determine execution and implementation arrangements;

(d) Establishment of reporting relationships among the various partners; and

(e) The identification of the possible sources of financing and facilities available under the new arrangements for the procurement of technical and operational support services from executing and implementing agents.

6. The Administrator believes that this framework will provide considerable scope for the effective application of execution and implementation arrangements under the new support cost regime. The specialized agencies and UNDP therefore expect that such arrangements, determined in accordance with the framework agreed upon, will lead to more effective delivery of UNDP-financed activities and more rigorous application of accountability requirements among the governments, UNDP and the agencies. The Administrator has decided, therefore, to operationalize this framework with immediate effect. Thus, in response to paragraph 31 of decision 91/32, he intends to cover in the report to be provided to the Governing Council at its fortieth session (1993) the actual measures undertaken to ensure that execution and implementation are satisfactory under the new regime.

IV. STATUS OF FINANCIAL PROVISIONS

7. In paragraph 33 of decision 91/32, the Governing Council requested the Administrator to provide an annual progress report, including in it information on the status of the financial provisions of the successor arrangements. In this first progress report, information is provided, in particular, on the transition to the new regime.

8. The allocation of resources to the various components of the total package of successor arrangements was made on the basis of assumptions regarding the percentages of total programmable resources likely to be implemented by various implementing agents as well as historical patterns of programme build-up during the five years of a programming cycle. In particular, it was estimated that 22.5 per cent of total programmable resources for the fifth cycle i.e., $1 billion, would be approved before the start of the fifth programming cycle. Column 1 of the table below shows a breakdown of this estimate by various groups of implementing agencies subject to different support cost arrangements.

(millions of United States $)

	Estimate made in May 1991	Actual approvals as of end-March 1992
Five agencies subject to new regime	500	570
Other agencies (Excluding World Bank/OPS)	180	220
World Bank, OPS and Economic Commissions	180	260
National implementation	140	250
TOTAL	1 000	1 300

9. Based on the above estimates, the Governing Council decided the following in paragraph 13 of decision 91/32:

(a) All projects approved before 31 December 1991 would be subject to the old regime for the entire duration of their activities;

(b) The estimate of $500 million relating to the five agencies subject to the new regime, would be established as a target. The old regime would continue to be applied to projects implemented by these agencies until such time as this target is reached or 30 June 1992, whichever occurred earlier;

(c) Similarly, a target of $180 million would be established for agencies subject to the old regime. Until this target was achieved, support cost payments would continue to be made from central resources (rather than from the resources of the IPF subline) or 1 January 1993, whichever occurred earlier.

10. The Administrator is pleased to report that the targets mentioned above have been achieved and indeed exceeded. Owing to a number of practical reasons, however, it is difficult to determine the precise dates when these global targets were achieved, in particular because it was not possible to estimate the levels of unspent budgets carried forward from the fourth to the fifth cycles until individual project budget rephasings took place in the first quarter of 1992. In addition, field offices were authorized to approve projects under the old regime after 1 January 1992, in cases where the project formulation process had reached an advanced stage and conversion to the new regime would have involved considerable additional effort. As a result, project budgets approved as of 31 March 1992 under the old support cost arrangements have exceeded the targets established, as is evident from column (2) of the table.

11. Based on the above and within the overall allocation, certain adjustments to the individual lines specified in annex I of decision 91/32 will be made at the end of 1992, when statements of project expenditures for 1992 are provided by the specialized agencies concerned. The changes can, at this time, be tentatively estimated as follows:

(a) Support costs for transitionary projects will be revised from $109 million to $123 million (line 1 of annex I of decision 91/32);

(b) The resources for country and intercountry indicative planning figure (IPF) sublines will be revised from $323 million to $312 million (line 9 of annex I of decision 91/32).

12. In this connection, attention is called to the mid-term review of resources scheduled for 1994. As part of this exercise, as envisaged in paragraph 9 of decision 91/32, a review of the financial provisions of the support cost arrangements will be conducted and reported to the Governing Council.

V. RESULTS OF COST STUDY

13. In his report on support cost successor arrangements (DP/1992/25) the Administrator informed the Governing Council that a study of the costs of providing support services to UNDP-financed projects had been carried out in 1991 in the five specialized agencies concerned and in the Office of Project Services (OPS). The purpose of the study was to identify clusters of administrative and operational services (AOS) and their costs as well as to determine differential rates of reimbursements to be applied to them by UNDP as part of the new support cost arrangements. The independent consultants appointed to carry out the study reported their preliminary conclusions and recommendations to a working group of the Council in June 1991. At that time, the Council was informed that the agencies planned to make further refinements to the data collected during the study and that the final results would be available in the fourth quarter of 1991. Based on these discussions, the Council authorized the Administrator in paragraphs 17-22 of decision 91/32, to establish a final schedule of rates of reimbursements prior to 1 January 1992, when the new system was to go into effect.

14. The refinements to the study have now been completed and final results have been made available. In addition, a study of the cost of providing technical support services has also been carried out. Thus, the Administrator is pleased to report that an adequately reliable and usable database of the cost of providing support services has now been established in the five agencies concerned. It is intended that the data collected will be kept up to date through periodic revisions and used for the determination of rates of reimbursements for future periods. It is also hoped that the data will be equally useful in the agencies for internal management purposes and for identifying areas for achieving economies and productivity improvements.

15. The final results of the cost study disclosed that only minor changes in the reimbursement rates determined earlier would need to be made. Because the changes are not material, the rates as established earlier have now been confirmed. These are listed in the annex.

16. In paragraph 18 of decision 91/32, the Governing Council requested that further consideration be given to a possible reduction in the number of clusters before their final establishment. Upon further review, the consultants have recommended that a period of field testing would be advisable before making such reductions. As a result, seven clusters of administrative support services have been established, as shown in the annex.

VI. TECHNICAL SUPPORT SERVICES AT THE PROGRAMME LEVEL (TSS-1)

17. In establishing the TSS-1 facility, the Governing Council provided detailed procedures for the administration of its resources. A workplan for the period 1992-1993 for the activities to be carried under this facility is currently being prepared jointly by UNDP and the agencies concerned. In doing so, the procedures specified by the Council have been followed carefully. However, because of the limited time available, certain processes have had to be abbreviated and carried out in parallel rather than in sequence.

18. The five agencies were requested to prepare, as a starting point for this exercise, a list of proposals based on their assessments of country sectoral priorities and needs. The Governments and UNDP field offices reviewed this initial list and had the opportunity to add, eliminate or amend any of the proposals. The revised list, as validated in the countries concerned, has been reviewed collectively by the agencies and UNDP and a final workplan prepared. This will be provided to the Governing Council as an addendum to the present report.

19. The Administrator is pleased to report that the process of preparing the workplan has already brought about a number of benefits. First, there has been recognition of the additionality of resources, albeit small, to the developing countries for upstream sectoral and policy-related activities at a time when country programmes for several countries are being formulated. Second, the process has presented UNDP and the agencies with an additional opportunity for a welcome dialogue on several policy-related issues. Third, the process under way has revealed several lessons for the management of central facilities, particularly in ensuring that such facilities are responsive to demands emanating from the field.

20. The process has nevertheless been beset with several difficulties. Because of the limited time available, it has not been possible to carry out detailed consultations with the various partners involved in the preparation of the workplan. As a result, some of the proposals have not been worked out in detail and may require further elaboration after approval of the workplan. Possibly because it is a new and innovative facility, the characteristics of which may not yet be fully understood, several proposals have been submitted

that have turned out to be inappropriate for TSS-1 financing. At the same time, requests for TSS-1 financing have far exceeded the resources available for this period and as a result many worthwhile proposals have had to be deferred or rejected. Finally, the level of TSS-1 funding available to some of the regions and/or countries may not provide the critical mass necessary for effective use to be made of the resources.

21. In carrying out this exercise, the agencies and UNDP recognized that TSS-1, while it has a specific purpose and mandate, is still only one of several sources of funding available to finance policy-oriented, sectoral studies at the upstream end of the programme/project cycle. In fact, the Governing Council intended TSS-1 to be a catalytic facility that will leverage the use of other resources, including, in particular, agency regular programmes and the IPF itself. Thus, every effort will be made by the agencies and UNDP to complement TSS-1 with resources from these sources and to finance worthwhile proposals that could not be accommodated within the current TSS-1 allocation.

22. The Administrator has allocated $25 million for TSS-1 activities during 1992-1993, out of an amount of $64 million established as the total allocation for the fifth cycle. In this connection, the study of the cost of providing technical support services at the programme level, referred to in section V above, has shown that the total cost of one workmonth of such services amounted to $24,000. This amount consists of the cost of professional and associated support services as well as other indirect costs. The former has been estimated at $14,000 and the latter at $10,000. It has been agreed between UNDP and the agencies concerned that UNDP will reimburse the latter at the rate of $14,000 per workmonth, which represents the cost of professional services at an average rate of $9,500 per workmonth and associated support services at an average rate of $4,500 per workmonth. Indirect and other costs of $10,000 per workmonth will be borne by the agencies.

23. It should be pointed out, however, that the data collected during the cost study related to activities carried out under agency regular and other programmes, in the absence of data on TSS-1-financed activities that have not yet been commenced. It is, therefore, not possible at this stage to determine whether the cost of TSS-1 services, which are mainly field-oriented, are likely to be materially different from those that relate to similar activities carried out under the agency programmes. It is intended that the cost data would be updated at the end of this biennium, based on a review of TSS-1 activities, and reimbursement rates for future periods established accordingly.

VII. ISSUES RELATING TO AGENCIES NOT SUBJECT TO THE NEW REGIME

24. In paragraph 3 of its decision 91/32, the Governing Council invited specialized agencies not part of the new regime to consider the possibility of participating in the new regime in the light of the experience gained. For this purpose, UNDP has maintained an ongoing discussion with those agencies on various aspects of the new arrangements. They were also consulted in the

formulation of the guidelines and the policy framework for execution and implementation, referred to in section II above. During the course of these consultations, the agencies expressed a concern over their lack of access to the technical support services (TSS-1 and TSS-2) available under the new regime. They believed that with the growth in nationally executed projects in their sectors, the absence of a facility such as TSS-2 could deny them an opportunity to participate and provide technical support to Governments and UNDP for these projects. Similarly, the lack of access to TSS-1 funds limited their ability to participate in programme and sectoral level work with the countries concerned. The agencies, however, recognized that their lack of eligibility for TSS-1 and TSS-2 funding was the result of a choice exercised by them as to which of the two support cost regimes would apply to them, as each regime has its own distinct characteristics and facilities.

25. As stated above, the agencies recognize the attractive features of the new arrangements. However, as beneficiaries of support cost flexibility provisions, several of them would be adversely affected if joining the new regime would result in a loss of such flexibility entitlements. As a result, they have requested the consideration of a modified system that would incorporate flexibility provisions along with the other attractive features which currently exist in the new regime.

26. The Administrator is encouraged by the consultations carried out so far and intends to continue discussions further during the course of 1992. It is his intention to develop further proposals to apply to these agencies, based on the experience in the operation of the new regime and the special requirements of the agencies, and present them to the Governing Council at a future session.

VIII. APPLICATION TO TRUST FUNDS AND OTHER FUNDS UNDER THE ADMINISTRATOR

27. The Governing Council decided in paragraph 24 of decision 91/32 to consider at the thirty-ninth session the question of charging support cost to UNDP trust funds and other funds under the authority of the Administrator. It had, however, decided that in respect of projects financed by these funds and implemented by the Office of Project Services, the schedule of AOS reimbursement rates would apply.

28. After consultation with the five agencies subject to the new regime, the Administrator recommends that, with respect to projects implemented by these agencies and funded by UNDP trust funds and other funds under the authority of the Administrator, the AOS reimbursement schedule be also applied to them. Any technical support services that may be required in the execution of these projects should be subject to negotiations on a project-by-project basis and provided for in the project budget.

29. The implementation of these proposals will bring the support cost arrangements applicable to the various funds in line with one other and contribute to administrative streamlining in the agencies and OPS.

IX. CURRENCY FLUCTUATIONS

30. In paragraph 17 of its decision 90/26, the Governing Council requested the Administrator, in consultation with the agencies concerned, to make detailed proposals for mechanisms to provide a reasonable degree of protection from exchange rate movements, taking account of the need to share at least part of the foreign exchange risk with the executing agencies. The Council further specified that the proposals should have no net cost over time.

31. After consultations with the agencies, the Administrator presented a proposal to the Governing Council in June 1992 (paras. 67-74 of document DP/1991/25) that involved the application of a moving United Nations operational exchange rate to all support cost payments. The Administrator believed that this system would provide a reasonable degree of protection to the agencies from exchange rate movements without compromising the basic principle of UNDP resource management processes, which aim to maximize the resources available for technical cooperation activities. He had, however, drawn attention to the fact that the agencies disagreed with the provision for repayment by the end of the sixth programming cycle as well as the reasons for this disagreement (DP/1991/25, para. 73). Following discussions, the Governing Council, in paragraph 30 of its decision 91/32, requested possible new proposals which should contain the principle of symmetry in compensatory payments between the United Nations Development Programme and the agencies.

32. In response to this request, the subject was discussed further with the agencies in meetings of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ(FB)) in September 1991 and March 1992. The agencies represented in the Committee support the principle of symmetry invoked by the Governing Council, which they understood to mean an equitable system of compensation for currency fluctuations that should result in no net loss to UNDP over time. The agencies maintain their objection to obligatory restitution of receipts at predetermined times and feel that the requirement for no net loss to UNDP over time can be satisfied by the expectation that the value of the dollar vis-à-vis other currencies will fluctuate around an average rate over the years of the fifth and sixth programming cycle. Following these discussions, the Administrator's present proposal omits the requirement for a mandatory reimbursement to UNDP at any predetermined moment, but follows the principle of symmetry as required in the Council's decision.

33. The proposal is based on the following premises:

(a) The value of the dollar vis-à-vis other currencies will fluctuate around an average rate over the years of the fifth and sixth programming cycles. In other words, there will be no secular increase or decrease in its value over this period. As a result, currency protection payments will be made by UNDP as the dollar weakens and there will be repayments by the agencies to UNDP as the dollar strengthens;

(b) The use of a moving average of United Nations operational rates of exchange based on the five previous years, as opposed to using the current rate alone, would provide agencies with protection against sharp annual swings in exchange rates;

(c) The cost to UNDP in any one year should not exceed a predetermined percentage of the support costs earned by the agencies in that year;

(d) The cost to UNDP for a period of five years should not exceed 5 per cent of the total support costs paid by UNDP to the agency concerned.

34. Based on these premises, the proposed system would be administered along the following lines:

(a) The accounting and reporting procedures currently in effect would continue to be applied; the appropriate United Nations operational rates of exchange would be used to record expenditures and support cost earnings on a monthly basis. At the end of a year, the support cost earnings in the currency of the country in which the agency's headquarters is located (referred to hereafter as local currency) would be calculated by applying the average United Nations operational exchange rate for the year to recorded dollar support cost earnings;

(b) This amount (the "standard amount") would then be compared with the amount in local currency (the "adjustment amount") calculated by applying the moving average United Nations operational exchange rate for the five previous years to the same dollar support cost earnings. If the adjustment amount were greater than the standard amount, UNDP would pay the agency concerned the difference in local currency, up to a maximum in any one year of the local currency equivalent of 20 per cent of the dollar support costs earned in that year, subject to a maximum limitation for the programming cycle of 5 per cent of the agency's actual support costs for the cycle. If the adjustment amount were smaller than the standard amount, the agency concerned would repay UNDP the difference in local currency, subject to the same percentage maximums. In no case would an agency repay UNDP an amount greater than it had received from UNDP since the inception of the scheme.

35. It should be noted that any "costs" arising from this proposal will be charged to the item in UNDP accounts entitled "other income", where exchange rate fluctuations are recorded and reflected. These charges will not be made to the agency support costs.

36. The agencies, while appreciating that the scheme is expected to have zero cost over time, feel that the application of the proposed maximums would not provide adequate protection in the case of a persistent downward trend in the value of the dollar or in the case of a major drop in the value of the dollar which might mean that the maximum limitation might be reached very early in the programming cycle. The application of these proposed maximums under such conditions would not meet the requirements in Governing Council decision 90/26

for a scheme giving a reasonable degree of protection. Accordingly, the agencies, while supporting this proposal, ask that the Governing Council consider reviewing the scheme at a later stage at the request of either UNDP or the agencies should either of these above-mentioned adverse conditions arise.

37. The Administrator submits that in the case of a persistent downward trend in the value of the dollar it is impossible both to protect the agencies and have symmetry in compensatory payments. In addition, cases are conceivable where a large fall in the dollar could cause a major impact on support costs earned while limitations on currency protection payments would still be necessary to limit such payments to a reasonable amount. Therefore, the scheme as outlined above is designed to ensure that it is cost-neutral over time while expecting that, on the basis of normal cycles of exchange rate movements, a reasonable degree of protection will be offered. If the agencies were to be guaranteed protection under all circumstances, including precipitate declines or persistent weakness of the dollar, then the principle of symmetry would not be fully met. In the Administrator's view, the proposed scheme balances the two requirements for cost neutrality and reasonable protection, but agrees that a further review by the Governing Council might be advisable if the adverse conditions mentioned in paragraph 36 above materialize.

X. FLEXIBILITY ARRANGEMENTS

38. In paragraph 29 of its decision 91/32, the Governing Council reaffirmed existing arrangements (established in accordance with para. 3 of decision 81/40) that only autonomous organizations within the United Nations system should be eligible for support cost flexibility arrangements. In this connection, the Executive Director of the International Trade Centre (ITC) had requested that such flexibility payments be made to his organization in respect of UNDP-financed projects executed by it, as ITC is not considered part of the United Nations Secretariat. During discussions in the working group of the Governing Council in June 1991, it was concluded that clarification on the legal status of ITC would be sought before acting on this request. The Assistant Secretary-General and Controller of the United Nations has subsequently obtained the legal opinion on the status of ITC and its possible eligibility for flexibility payments. In a detailed analysis, the legal counsel of the United Nations has covered various aspects of the legal status of ITC and renders his opinion on the eligibility of ITC for flexibility in the following paragraphs, extracted from his letter of 9 September 1991:

> "... we note that ITC is under the authority of GATT and UNCTAD. In fact, it was designated by UNDP as an executing agency on the basis of the authorization of the GATT Council and the UNCTAD Trade and Development Board. Its regular budget is also jointly funded by GATT and UNCTAD. Therefore, under the criteria established by the Governing Council, ITC would not qualify for flexibility, as it is not an autonomous organization.

"On the other hand, ITC is a subsidiary organ not only of the United Nations but also of GATT, which is an autonomous institution. As a consequence, the ITC carries out several activities within the GATT mandate, and acts as an executing agency of UNDP for such activities. To the extent that in the execution of projects connected with those activities, ITC could be regarded as acting on behalf of GATT, it would deserve separate consideration for the flexibility provision of the support cost successor arrangements. In this respect, ITC would be considered as acting on behalf of GATT, which as noted above is an autonomous entity, and operates essentially within the United Nations system, having been established pursuant to an Economic and Social Council resolution and cooperating closely through ITC with UNCTAD.

"In view of the above, ITC cannot entirely be assimilated to the other component parts of the United Nations, such as UNCTAD, UNCHS and the Regional Commissions. It might, therefore, be appropriate to request UNDP to reconsider its decision as regards the application to ITC of the flexibility provision of the support cost successor arrangements."

39. Based on the above legal analysis, the Administrator recommends favourable consideration of the ITC request for eligibility for flexibility payments. If this request is approved, it is estimated that annual flexibility payments to ITC, based on projections of programme expenditure for the fifth cycle, would amount to approximately $600,000.

XI. MONITORING AND EVALUATION

40. In paragraph 32 of its decision 91/32, the Governing Council requested the Administrator to present proposals for the monitoring and evaluation of the new arrangements, taking into account the objectives set out in paragraph 1 of that decision. Accordingly, consultations have been held with the agencies concerned and various proposals considered.

41. It is recognized that monitoring the implementation of the complex set of arrangements which governs the new support cost regime should be an ongoing and collaborative activity between the agencies and UNDP and indeed, be seen as an integral part of implementation itself. To carry out such monitoring, UNDP intends to establish, in consultation with the agencies, a set of indicators designed to measure the degree of progress achieved towards the objectives of the new arrangements. Such indicators could include, inter alia, those relating to progress made in the use of national execution; the extent of participation of specialized agencies in such projects; the level of resources allocated to administrative and operational services as compared with those for technical support services; the extent to which use is made of external implementation agents, both national and international; and improvements made in the exercise of financial and substantive accountability of the various parties involved. However, as stated in paragraph 4 of the present report, the facilities of the support cost arrangements constitute only a part of a larger package of legislative measures adopted by the

Governing Council to achieve these objectives. Monitoring of these arrangements should therefore take place against the backdrop of the implementation of the entire package. A core group, which was established to develop the modalities of implementation of the new arrangements, will continue to serve as a joint UNDP/agency mechanism by which monitoring of these arrangements will take place.

42. UNDP intends to carry out an internal evaluation of the new arrangements in 1993 based on experience gained until that time. This evaluation will be carried out by UNDP with the assistance of the Central Evaluation Office and with the collaboration of the agencies. The results of this evaluation will be primarily used for internal management purposes, including the need to make changes, should it arise, to the guidelines established for the system.

43. As requested by the Governing Council in paragraph 6 of its decision 91/32, an external independent evaluation will be scheduled for 1994. The results of this evaluation may constitute useful input for the mid-term review of resources also planned for 1994.

Annex

AOS REIMBURSEMENT RATES APPLICABLE TO SERVICES PROVIDED BY FAO, DTCD, UNIDO, ILO, UNESCO AND OPS

	Description	Rate of reimbursement
Cluster 1:	International personnel	9%
Cluster 2:	National personnel	11%
Cluster 3:	Subcontracts	11%
Cluster 4:	Fellowships	12%
Cluster 5:	Other training services	21%
	Equipment and supply procurement	a/
Cluster 6:	Local procurement	6%
Cluster 7:	International procurement	
	Normal rate	10% b/
	Reduced rate for large orders subject to Contracts Committee review	4% c/

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a/ If the type of procurement action (local versus international) is not known, a rate of 7 per cent will be used for budgeting purposes only. Once determination has been made of the type of procurement action to be taken, reimbursement using the appropriate rate will be requested by the agency.

b/ This rate will be applied to purchase orders up to a maximum level of $70,000, a level above which a Contracts Committee review is usually required in most agencies.

c/ Large purchase orders will be reimbursed at a reduced AOS rate of 4 per cent in respect of amounts exceeding $70,000. Thus, for example, the purchase of equipment whose value is $200,000 will be reimbursed at the rate of 10 per cent for $70,000 and at the rate of 4 per cent for $130,000. The reimbursement will therefore be $12,200.